

CITY OF FRANKLIN

Lease Accounting and Reporting Policy

Exhibit A

1. PURPOSE

To implement new accounting and reporting requirements for government leases in accordance with Governmental Accounting Standards Board (GASB) Statement 87, Leases, effective beginning fiscal year 2022 and Statement 96, Subscription-Based Information Technology Arrangements, effective beginning fiscal year 2023. In the statement, leases are no longer classified as operating or capital leases.

2. LEASES OF ASSETS

Leases are agreements between the owner of an asset (lessor) and a payor (lessee) for use of the asset over a period of time. The City may be the lessor or lessee in these agreements. This policy applies to leases of land, building, vehicles, ~~or~~ equipment, and technology/software as a subscription of \$50,000 or more, which are included in the new requirements. Leases of software and leases that transfer ownership of the asset, which are not included in the new requirements, are not included in this policy.

3. LEASE PERIOD

This policy applies to lease agreements of more than 1 year.

4. LEASE AGREEMENT REQUIRED TERMS

- a. Description of lease specifying the rights to assets provided or given.
- b. Name of lessor and lessee (for City, include department name if applicable)
- c. Describe land, buildings, vehicles, or equipment asset(s) being leased, including asset identifiers (address, VIN, serial number, etc.) if applicable.
- d. Resolution and/or contract number the lease was approved.
- e. Date the lease was approved.
- f. Date a pre-lease payment is due (prior to start of lease).
- g. Pre-lease payment amount due (prior to start of lease).
- h. Lease start date (date rights to use asset occur).
- i. Initial lease end date.
- j. Extended lease end date if applicable.
- k. Frequency of lease payments.
- l. Due dates of payments (to determine if payments are paid at beginning or at end of a payment period)
- m. Portion of total payment that is for maintenance of asset in lieu of lease of asset.
- n. Payment escalator (percent, CPI, or amount increase in the lease payments during the lease term)
- o. The interest rate (discount rate) the lessor charges the lessee.

5. INTEREST RATE (DISCOUNT RATE)

If the interest rate is not stated by the lessor, the Finance Department will determine the appropriate interest rate (discount rate) based on the lessee's estimated incremental borrowing rate.

6. ACCOUNTING FOR LEASES IF LESSOR

If the City is the lessor, the Finance Department will calculate the following:

- a. Deferred Inflows. This matches the Initial Lease Asset Value (lease payments +/- pre-lease payment made) on the lessee side.
- b. Lease Receivable. This matches the Lease Liability (present value of lease payments) on the lessee side.
- c. Lease Revenue. This matches the Depreciation Expense (straight-line annual reduction of Asset Value) on the lessee side, and
- d. Interest Revenue. This matches the Interest Expense (time value of money included in each lease payment) on the lessee side.

7. ACCOUNTING FOR LEASES IF LESSEE

If the City is the lessee, the Finance Department will calculate the following:

- a. Initial Lease Asset Value (lease payments +/- pre-lease payment made)
- b. Lease Liability (present value of lease payments)
- c. Depreciation Expense (straight-line annual reduction of Asset Value), and
- d. Interest Expense (time value of money included in each lease payment)

8. ANNUAL REPORTING OF LEASES

The calculated amounts will be reported in both the fund financials and the government-wide or proprietary fund statements in the City's Annual Comprehensive Financial Report (ACFR).

9. PERIODIC REPORTING OF LEASES

Finance will periodically submit reports of outstanding leases to the City Administrator as well as to the Budget & Finance Committee of the Board of Mayor and Aldermen.

10. ADDITIONAL LEASE TERMS

The City may include additional terms in a lease agreement not listed above.